

DETERMINANTS OF CONSUMER CHOICE FOR PRIVATE LABELS

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Abstract: The growth of private labels or store brands in the organized retail in India is a recent phenomenon. While national brands are dominating, the private labels are growing year after year. However, the latter's share varies amongst various product categories as also amongst top retail players. The competition between national brands and private label brands is increasing. The large format retailers are targeting a greater share of the private labels in the coming years. Serious attempts for popularising the private labels have led to frequent search for identification of significant factors of consumers' choice for these brands over national brands. In the category of food and grocery, the top-most attributes for choice between these two categories of brands were found to be quite different, thereby providing some insight into marketing strategies needed for better and quick growth of the private labels.

Keywords: Organised Retail Industry, Private labels, National Brands, Retail Brand Development Strategy, Brand Attributes, Choice of Attributes.

1. INTRODUCTION

In India, the private label brands or store brands are three decades old phenomenon, whereas in the Europe, the U.K and the U.S.A, these started a century ago. The international retailers ascribe their glaring success to their strong focus on the private labels. Wal-Mart (USA) and Tesco (UK) have 40 per cent and 55 per cent own label brands representation in their stores respectively (KPMG, 2009).

Only large format retailers or wholesalers or retails chains in the organized or modern retail embark on private label branding. This adoption is in the face of rising competition so as to improve margins and to increase store loyalty. The share of the private labels is growing in the retail-mix of the leading big retailers and has started threatening the national brands in the present inflationary scenario.

Not all large retailers in India are having big growth of the private labels (Images Retail Report, 1998). Those having relatively lower growth are very keen to increase their private label share to the present level of the leading players who have proclaimed to have set still higher targets for the coming years. All of them are searching for useful marketing insights for better and quicker growth of their private labels. Therefore, determinants of consumer's choice for private labels vis-à-vis national or established brands are being frequently researched for selective product categories already in vogue in their stores.

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2. LITERATURE REVIEW

Early research work on private label brands choice centred around demographic variables (Frank and Boyd (1965), Coe (1971). Burger and Schott (1972) added variables like social class and income. Szymanski and Busch (1987) added other categories of independent variables – shopping behaviors and product perceptions, besides psychographic factors.

Research on psychographic variables was carried forward by Myers (1967), Livesey and Lennon (1978), Burger and Schott (1972), Richardson *et al.* (1996), Batra & Sinha (2000), and Shannon and Mandhachitara (2005).

The demographic variables research provided useful highlights for possible market segmentation. In the context of customer behaviour for private brand purchase, significant demographic variables were found to be “age”, “education”, “income” and “family size”. But, these variables could not resolve the main issue as to why private brands or national brands were preferred over each other. The psychographic variables were found to provide better explanation for choice or preference for private labels by the consumers. The afore-listed researchers’ literature reveals following significant psychographic variables:-

- (i) Price attitude
- (ii) Consumer perceptions of the particular category (degree of perceived quality variations, level of perceived risks, and perceived value for money).
- (iii) Purchasing experience (i.e. experience with private label brands, also called private label brand familiarity)
- (iv) Differences in consumer needs.
- (v) Different product importance among consumers
- (vi) Differential response to marketing activities.

An integration of demographic and psychographic variables is likely to have a higher explanatory power (Abhishek, 2011). He has, therefore, structured a single model to understand proneness to private label brands. Though the approach is intended to make the model a comprehensive one, it focuses on only one category – apparels, and needs more work for operationalization of variables for data collection, besides other limitations listed by him

3.1. Indian Retail Scenario

Indian retail market is the fifth largest in the world. It is the largest sector accounting for 14 to 15% of the country’s GDP and contributes 8% of the employment (Indian Retail Report 2013, Images Group). Between 2010 and 2012, the retail market grew by 10.6 per cent from US \$424 billion to US \$518 billion, according to a report entitled

“India Retail Market – Opening More Doors” (Deloitte, 2012). It is expected to climb to US \$ 869 billion by 2015, growing at 18.8 per cent.

3.2. Organized Retail (Modern Retail) Scenario and ‘Private Labels’

The share of “organized retail” which was 8 per cent in 2012 is estimated to rise to 20 per cent by 2020 (Deloitte, 2012). The growth of the organized retail contributed to the growth of private label brands. A further growth of the organized retail is expected to lead to a further growth of the private labels. The recent policy announcement of 100% FDI in single brand and 51% in multi-brands is expected to encourage growth opportunities in the organized retail segment.

Within the retail sector, food and grocery is the largest category with 60 per cent share followed by Apparel and Mobiles. The share of private labels in sales volumes of big retail players in India is 10 to 12 per cent, according to OC & C Strategy Consultants (business rediff.com 26.8.2009). This share is growing year after year for big retail chains. But the level of penetration in food and non-food categories differs from player to player across large retail formats (Images Retail Report, 2008). Therefore, some players are having double digit (10 to 20 per cent or more) share of private labels in their total share volume. But such large retail format stores are spread only across Metropolitan and major cities.

In India, in the total retail sales by value (both in organized/modern and unorganized sectors), the share of private labels is quite meagre. Its size needs to be compared with those of BRICS countries. The “private label dollar share” in “total retail” in Brazil and Russia is 5% each, while it is 1% in China; but figures for India and South Africa are less than one per cent. Hence these two countries are not listed amongst top 40 ranks of countries having private label share, ranked between top-most (46 per cent) and bottom-level (one per cent). The one per cent share ranked countries, besides China, are Thailand, Indonesia and the Philippines (Nielson Private Label Global Report, 2011).

4. RETAIL BRAND DEVELOPMENT STRATEGY

Retailers can start own-brand development strategies by beginning with generics and then moving up to re-engineered low-cost brands, store brands and finally price parity as they gain experience to built confidence in own-brand development. Thus, firstly, they follow generics by cheap store brands which are a step above generics but still of an inferior quality, offering a large discount against manufacturers brands. Reengineered low-cost brands are the next step-up where the retailer proactively examines the product and packaging to see how costs can be reduced, whilst offering the same functionality of the branded product. The next stage is to offer par quality store brands. In the final stage, retail brands take leadership roles through positioning and innovation with price parity.

PRICE-QUALITY STRATEGY

<i>Private Label –Product Attribute and Category Choice</i>	<i>Implications</i>
1. Lower price-higher quality	The most beneficial category to enter if the lower price can come from disintermediation and part of the savings can be used to enhance quality and raise the retailer's margin.
2. Lower price-lower quality	CAUTION: The retailer must know his segment. Is he inventing a new segment? He needs to be sure of the PQ-WP equation.
3. Higher price-higher quality	CAUTION: Niche. Does the retailer have customers who will pay a premium for premium?
4. Higher price-lower quality	Reject

5.1. Research Objectives

The objectives of this research are two-fold:

- (1) What are the significant attributes on the basis of which consumers choose private labels or national brands? and
- (2) What are the attitudes of consumers towards private labels and national brands?

5.2. Conceptual Background

In the Brand attributes & Multi-attribute Models in the recent studies, various attributes have been identified to assess the consumer evaluations of Private Labels. A review of the studies reveals that following Private Labels attributes are quite important:

- Brand image
- Freshness
- Healthy
- Packaging
- Prestigious
- Price
- Quality
- Risk

To assess the consumer evaluation of private labels the multi-attribute model is used. Here we use the "Adequacy-Importance" Model which also happens to be one of the most widely used model appearing in consumer behavior research. This model can be described as follows:

$$A_i = \sum P^* D$$

Where-

A_i = an individual's attitude toward the brands

P = importance of attribute (dimension) for the person

D = individual's evaluation of brands with reference to the corresponding attribute (dimension).

5.3. The Survey Instrument

The eight brand attributes identified are fitted into the Model. For measuring the importance ('P' in the "Adequacy-Importance" model) accorded to each of the eight brand-attributes on a 5 point category scale where 1= least important and 5= most important, the following questions were asked:

- I believe that the quality that I should get when I buy a product is...
- I believe that the price I pay for goods should give me value for money is...
- I believe that it is ...that the products I buy are risk-free .
- I believe that buying fresh goods is...
- I believe that good quality packaging of goods is...
- I believe that buying healthy goods is...
- I believe that it is... that the goods I buy are prestigious.
- I believe that buying goods with a very good brand image is...

The individual brand-attribute question is then multiplied with a corresponding question evaluating the degree of presence of the attribute in both Private Labels & National Brands.

These questions measuring 'D' in the "Adequacy-Importance" model were rated on a 5 point Likert type scale where 1 = strongly disagree and 5 = strongly agree:

- I believe that the store brands available in this store have an excellent quality...
- I believe that the store brands available in this store are excellent value-for-money...
- I believe that the store brands available in this store are not risky to buy...
- I believe that store brands available in this store are fresh...
- I believe that store brands available in this store have an excellent packaging...
- I believe that the store brands available in this store are healthy...
- I believe that the store brands available in this store are prestigious...
- I believe that the store brands available in this store have an excellent image...

The same questions were asked by substituting "store brands" with "national brands".

5.4. Sampling Design and Data Collection

One hundred shoppers were contacted to respond to the survey questionnaire. Only shoppers for grocery and food products were included in the study. Ninety-six complete and correct questionnaires were received giving a conversion rate of 96 per cent. The respondents were contacted "outside organized sector retail stores" in Delhi. Only those individuals were requested to fill in the questionnaires that stated that they shopped for food and grocery at least twice a month from organized sector retail stores. The names of well-known organized sector stores were listed to enable them to respond to this qualifying question.

5.5. Data Analysis

Attitude towards Private Labels for the 96 respondents were calculated as per the following:

$$A_{pl} = P_1 * D_{pl1} + P_2 * D_{pl2} + P_3 * D_{pl3} + \dots + P_96 * D_{pl96}$$

Where

A_{pl} = an individual's attitude toward the PL

P = importance of attribute (dimension) for the person

D_{pl} = individual's evaluation of PL with reference to the corresponding attribute (dimension).

This calculation is given in Table 1. For attitude towards national brands for all 96 respondents the same formula will become:

$$A_{nb} = P_1 * D_{nb1} + P_2 * D_{nb2} + P_3 * D_{nb3} + \dots + P_96 * D_{nb96}$$

Where

A_{nb} = an individual's attitude toward the national brands

P = importance of attribute (dimension) for the person

D_{nb} = individual's evaluation of national brands w.r.t the corresponding attribute (dimension).

These calculations were done for all eight Attributes.

Table 1
Test of Significant Difference between Attitudes Towards PL vs. NB

Brand Attribute	Attitude towards PLs		Attitude towards NBs		t-test for equality of means
	Mean	Std. Dev.	Mean	Std. Dev.	
Brand image	11.1	1.66	13.0	1.21	-8.19*
Freshness	13.2	1.81	13.5	1.99	-1.35
Healthy	14.1	0.99	13.8	1.13	1.99
Packaging	12.5	1.12	14.6	1.81	-10.41
Prestigious	12.1	0.34	13.5	1.35	-10.54*
Price	17.2	1.15	15.4	2.24	6.26*
Quality	12.4	1.33	16.8	1.23	-17.94*
Risk	13.5	2.44	16.5	1.29	-10.03*

The t-test values denoted by asterix (*) convey that there the difference in means is statistically significant at the 5% significance level (calculated t-value greater than 2.0).

5.6. Discussions & Managerial Implications

The data analysis of consumer attitudes towards private labels (PL) & national brands (NB) (Table 1) shows that there was a perceived difference between PLs & NBs on the attributes of quality, price, risk, packaging, prestigious and image. However, there was no perceived difference on the attributes of freshness and health. This could be due to the sustained efforts on in-store promotions of private labels. On all other factors, the comparison between private labels & national brands is as follows:

- NB>PL (NBs perceived to be better than PLs): Quality, Risk, Packaging, Prestige & Image.
- PL>NB (PLs perceived better than NBs): Price.
- PL=NB (PLs and NB perceived to be the same): Healthy & Freshness.

Within brand-type, the top three attributes for NBs are quality, prestige and packaging, and for PLs they are price, health and freshness.

6. CONCLUSIONS

The literature review on store brands reveals that consumers' perceived quality and reliance on the extrinsic attributes are among the most relevant variables in explaining store brand purchase decisions. An improved understanding of customers' perceptions is crucial to marketers for enhancing customer satisfaction. Towards this end and for managing retail brands successfully, marketers have to learn more about customer needs and desires, and study their perceptions of quality. Previous research has proven that if the higher quality of the store brand results in an increase in the fraction of consumers that perceives the store brand to be of acceptable quality, profits to the stores increase with increases in the quality of the store brand. This research shows that even in an emerging market like India, NBs are definitely considered to be superior vis-à-vis PLs. However, the success of PLs is important to retailers and could be a critical part of their strategy in terms of competition, sourcing, supply chain management, positioning, profitability and expansion. Development of acceptable and sought after PLs needs strategic vision on the part of retailers.

This Survey leads to the following conclusions:

- (i) The foremost priority for the Big Retailer is to follow the lead given by the National Brands which score over the private labels, mainly based on Quality, Risk, Packaging, Prestige and Image – the top-most choice attributes of the consumers.

- (ii) Among the aforesaid top-most attributes, most significant one is the 'Quality' parameter. Unless and until the retailer commits to the 'Quality' of the Private Label and adds value to the product, he may not be able to compete effectively with the National Brands. A prolonged inflationary period does give an advantage to the Private Label. But in the long run when inflation subsides, growth potential would weaken due to non-retention of the customers. Therefore, a beneficial "combination" of the Private Label's "lower price" and "Quality" characteristics would attract the customers as also retain the existing customers' loyalty even in tougher times. In sum, high quality seems to be more important in determining success of the Private Label (Hoch and Banerji, 1993).
- (iii) The Consumer Risk is reduced by guarantee of product quality.
- (iv) The Shopping efficiency is also increased by informational aspects. Therefore, customers need to be informed timely about the offers and schemes associated with the products of the private label brands.
- (v) For attracting customers, Visual Merchandising can be helpful. Fabrication of 'Special Zone' for private labels would facilitate ease of shopping.

However, detailed independent surveys by researchers could be more insightful in searching choicest determinants of the Private Labels in relation to the National Brands, for each category of products in relevant market zones, viz., Metropolitans, major and other cities.

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